Testimony of Jean Chatzky

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Chairman Smith, Ranking Member Kohl, thank you so much for inviting me to address your committee here today. It is an honor and privilege, in particular because the problem you are discussing this morning - the financial security of America's women - carries such importance to me both professionally and personally. And it is quite a problem:

According to the 2005 Retirement Confidence Survey conducted for the Employee Benefit Research Institute:

- Only 40 percent of women have even tried to calculate the amount of money they will need to live in retirement.

- Of those that have, most seem to be vastly underestimating their true retirement needs. Nearly 40 percent believe they will need less than $250,000 to live through retirement – a figure that works out to roughly $10,000 annually for the 20 to 25 year period they expect to live in retirement.

- Equally discouraging, just 59 percent of women are actively saving for retirement, which means that 41 percent are not, with only 36 percent contributing to a workplace retirement savings plan.

- All in all, it is not surprising that just 35 percent of women believe they will have enough money to pay for their most basic expenses in retirement, and an even slimmer share - just 23 percent - believe they will have enough to live comfortably during what are supposed to be their golden years. When you ask what percent of women believe they'll have enough money to fund their healthcare and long-term care expenses, the percentages are even more discouraging.

I was asked here this morning not simply to outline this crisis - and I do believe it is a crisis - but to offer specific solutions that could help women, in particular, meet their retirement needs. What many people do not understand about women is we possess innate qualities that make us spectacular investors of our own money - once we step up to the plate. Researchers from the University of California Davis looked into the discount brokerage records of thousands of investors, comparing those of women to those of men and found:

- Women are far less likely than men to hold a losing investment too long.

- Women don't wait too long to sell winning investments. Men do.

- Men are much more likely to put all - or at least too many - of their investment eggs in one basket. Women are more likely to diversify.

- Men trade securities so often it's a drag on their investment returns, women buy and hold to their advantage.

- And when women do make investing mistakes - we learn from them. We are much less likely than men to repeat destructive behavior more than once.

The upshot of all of that positive behavior? Women make more money on their investments than men. Unfortunately not enough of us are in it. And once we are, because we leave the workforce so often to care for children or older parents, our stop-and-start retirement funds don't grow to be as large as they could. A few simple changes to the way most retirement funds are implemented could change that.

First, change the defaults. Today, more than 20 years after the introduction of the 401(k), 30 percent of employees still choose not to sign up. In doing so they leave $30 billion annually in employer matching dollars on the table. Why are they making this mistake? Often because they do not understand the golden opportunity before them. That is why I believe investing in 401(k)s and other defined contribution plans should be opt-out rather than opt-in. In other words employers should be able to assume this is something that employees are going to do. This will, research shows, boost participation to 90 percent and force those who do not want to participate to actively consider their choice.

Second, defined contribution plan contributions should increase automatically as an employee's wages rise over the years. This is a fairly new mechanism that some companies are putting in place. Contributions start at 3 percent and rise at a rate of 1 percentage point a year. Today only 25 percent of large companies have automatic escalation. It should be mandatory.

Third, an age-appropriate portfolio should also be automatic. One of the problems women investors, in particular face, is our reluctance to take risks. Unfortunately, a lifetime of savings in low risk/low reward money market and bond funds will not fund a secure retirement for most American women. The default should instead be a target-date retirement or lifecycle fund that automatically adjusts the underlying investment mix based on a woman's self-selected retirement date.

Fourth, education should be part of the IRA rollover process. I applaud the recent change that made IRA rollovers the default for plan balances over $1,000. However, while rolling over is good - rolling over and continuing to contribute is far better. Anyone rolling into an IRA should be educated on the opportunity they have to continue to make retirement contributions into a traditional, Roth or Spousal IRA on an automatic basis. Making the continuation of contributions part of the exit interview process means that a woman leaving the workforce has one less cumbersome step to take. Anything that simplifies the process insures greater participation.

These four changes will go a long way to insuring the retirement of the women who work for mid-size to large companies and other organizations that offer retirement plans. However, this still leaves self-employed women and women who are not in the traditional workforce (with two kids at home, I completely understand that stay-at-home moms work as hard if not harder than I do) in a lurch.

Here is what we know: Self-employment is of great appeal to women who want to be able to take care of their children, take care of their parents and still earn a living. That flexibility is one key reason why women start businesses at twice the rate of men. Self-employed individuals are less likely to save for retirement. Now, I am not schooled in the ways the government operates - so please forgive me if these next suggestions are naïve or reaching. But I believe there must be some way for the government - just like a large company - to be able to offer these women a default option that insures they are putting some of their own money away for retirement. Yes, there are incentives. But the incentives aren't doing it. I would suggest that the IRS and the Social Security Administration both be asked to consider whether either could be the funnel that drives additional dollars into a place where they can be saved - and grown.

Thank you.